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TAGS: [KNNP](#) [ENRG](#) [ETTC](#) [PARM](#) [IR](#) [IT](#)
SUBJECT: ITALY SUPPORTS USG AT NSG BUT LACKS URGENCY ON IRAN

REF: ROME 1475

Classified By: Economic Minister Counselor Tom Delare
for reasons 1.4 (b) and (d)

¶1. (C) Summary: On 11 December, ISN Acting A/S Patricia McNerney held bilateral talks with the Italian Ministry of Foreign Affairs. She and Treasury DAS Daniel Glaser later met with the Ministry of Finance. These talks focused on efforts undertaken to prevent Iran's acquisition of a nuclear weapons capability, but the delegation also discussed the adoption of a "criteria-based approach" at the Nuclear Suppliers Group (NSG) to restrict access to uranium enrichment and reprocessing (ENR) technology, the resurrection of civil nuclear power in Italy, worldwide civil nuclear technology exchange, the implementation of Financial Action Task Force (FATF) statements on Iran, and FATF guidance papers concerning implementation of Iran-related UNSCRs. These bilateral discussions preceded a December 12 multilateral meeting on national measures to pressure Iran to cease its nuclear weapons program. While Italian officials supported U.S. efforts at the NSG and a shared common objective on Iran, it was clear that Italy continues to view the Iranian threat in a less urgent light than does the United States. END SUMMARY

¶2. (C) ISN Acting A/S McNerney led a delegation to Italy on 11-12 December to engage a group of likeminded states in order to increase pressure on Iran with national measures. The delegation - which was composed of Treasury Department DAS Glaser, ISN staff (Bridget McGovern, Anthony Ruggiero, and Richard Nephew), Jennifer Fowler of Treasury, Sonata Coulter (EEB/TFS), and Sarah Groen (NEA/IR) - also met bilaterally with Italian counterparts. At the MFA the group met with Italian MFA Deputy Director General Claudio Spinedi, as well as Roberto Liotto and Alessandro Levi Sandri. At the Ministry of Finance the group met Director General for Financial Crimes Giuseppe Maresca, as well as Cristina Collura and Roberto Ciciani.

Common View of the NSG Criteria-based Approach and Civil
Nuclear Power

¶3. (C) Acting A/S McNerney addressed the issue of a criteria-based approach for ENR technology transfers that is currently under study by the NSG. National responses to the proposal currently tabled at the NSG were due on 12 December 2008. Acting A/S McNerney noted that while there appears to be broad support for the compromise approach negotiated in November 2008, French officials believe that Austria and Spain could prove to be spoilers to approval of the text without further editing. Consequently, French DAS-equivalent for nonproliferation matters Martin Briens had informed Acting A/S McNerney of his intention to call a meeting of EU

representatives prior to the 12 December deadline. (COMMENT: Whether this meeting occurred has not been confirmed. END COMMENT). Roberto Liotto said he was unaware of this development and expressed serious concerns with the possibility of European defections from the compromise solution arrived at in November. Liotto noted that he would immediately request that the Italian Permanent Representative to the IAEA (who also has some responsibility for NSG engagement in Vienna) approach his French colleagues to ascertain whether it is necessary to shore up EU solidarity on the ENR issue. Liotto noted explicitly that we should not "let the better become the enemy of the good." In particular, Liotto noted that one serious issue - how to handle regional groups engaging in collaborative nuclear cooperation - raised concerns about the NSG's commitment to the IAEA Additional Protocol as a vital nonproliferation instrument. However, Liotto noted that - in combination with the compromise text - clear national explanations of the position at a future NSG meeting would resolve any ambiguities.

¶4. (C) Acting A/S McNerney noted that South Africa has also taken problematic stands on this issue, likely in solidarity with the Non-Aligned Movement (NAM) and G-77 concerns regarding technology discrimination, and had previously insisted on more time before finalizing its position. Although Liotto agreed that South Africa's view was important, he was noncommittal to McNerney's request that Italy undertake a separate demarche to Pretoria. Liotto inquired as to U.S. plans for the next meeting of the NSG on this issue; Acting A/S McNerney expressed hope that a meeting and resolution of this issue could be achieved in the next month.

¶5. (C) Acting A/S McNerney then discussed U.S. interest in supporting the efforts of Middle Eastern countries to develop nuclear power in conformity with the highest standards of safety, security and nonproliferation. She also expressed appreciation for the EU's decision to provide funding for the IAEA's nascent nuclear fuel bank and enquired as to Italy's plans with regard to nuclear power. Spinedi noted that Italy's nuclear program is just restarting, having been largely shut down following a 1987 referendum on nuclear power. In fact, according to Spinedi, Italy was in the final stages of decommissioning the nuclear plants shut down in 1987 when the order to restart its nuclear program was issued this year. Given these unique circumstances, Spinedi stressed that Italy was focused on its own nuclear development for now and that currently cooperation was only envisioned with the United States and European partners. In this regard, he noted that Italy has a natural affinity for American nuclear technology, given past U.S.-Italy nuclear cooperation, and a desire to work with France given the interconnected nature of their electric grids. Spinedi suggested that while cooperation with some Latin American countries could be imagined over the medium term, the Middle East did not seem feasible until after Italy's nuclear program had matured. Liotto stressed that, regardless, Italy would pursue nuclear power in conformity with the three "S's": safety, security, and safeguards, a position shared among the left and right of Italy's political spectrum. He added that site selection would likely prove problematic and might delay implementation of the GOI's new nuclear policy. In response to Acting A/S McNerney's question, probing for an Italian analog to the U.S. nuclear cooperation process, Spinedi noted that Italy only had formal nuclear cooperation agreements with European countries and that all other relationships took place under specific contracts.

¶6. (C) Concerning the Convention on Supplementary Compensation for Nuclear Damage (CSC), Spinedi noted that while Italy had signed it, Italy had yet to ratify it because the appropriate national authorities had not concluded their bureaucratic procedures for entry-into-force. In response to Spinedi's inquiries on U.S. understanding of entry-into-force procedures and the status of other states' ratifications, Acting A/S McNerney promised to provide information to Italy soon.

...Magnifying differences over Iran...

¶17. (C) Acting A/S McNerney welcomed Italy's efforts at "moral suasion" to deter Italian companies from signing new contracts with Irital, an Italian joint venture with IRISL (reftel A). She enquired whether existing contracts would also be discontinued and if Italy intended to work to steer its companies away from Iranian transportation firms, particularly Irital and IRISL. Although Spinedi stressed Italy's firm opposition to new contracts being signed, he said that there was no legal basis to halt the implementation of existing contracts. He also noted that, as most contracts will expire in the 2011-2012 timeframe, it would be precipitous to take action against them now as relations with Iran could improve by then. McNerney raised concerns that these timelines are too long and pressed that Italian authorities consider additional steps to end this business relationship. Spinedi noted that while Italy would not complain if these companies "wiggled their way out" of their existing Irital contracts, Italy would not take action to prompt this outcome. Spinedi stated that "old contracts are, for us, a redline." (COMMENT: Italy, throughout this conversation, made clear that its commercial interests weighed heavily on its posture vis-Q-vis Iran. END COMMENT)

¶18. (C) Spinedi argued heavily for "pragmatism" in handling Iran and economic sanctions, stressing that Italy cannot "shoot itself in the foot" by taking action on Iran it would later regret, particularly if more robust sanctions led Iran to default on debts owed to Italian firms. Spinedi argued that since the United States and Italy are starting from different points of reference on trade with Iran - with the United States having extremely limited trade and Italy enjoying significant links - it is impossible for the United States to appreciate the magnitude of Italy's efforts to restrict such trade. Acting A/S McNerney acknowledged the legitimate differences in the U.S. and Italian approaches toward Iran, but stressed that the gravity and urgency of Iran's nuclear developments in the past months necessitate steps that could impair our other national interests. McNerney noted that we share Italy's view that 3rd country companies should not step in to take up the Iran business foregone by those governments responsible enough to take such action. However, this did not excuse inaction, but rather illustrated the need for more countries to act as Italy should, Acting A/S McNerney said. Spinedi noted that the meeting on 12 December by a larger group of likeminded states on Iran is the perfect opportunity to convey those messages.

¶19. (C) With regard to revoking Bank Sepah Rome's license to operate, Spinedi was firm in saying that Italy would have domestic legal problems with such a course. Spinedi stressed that such action would require new EU regulations, "which are not in the cards right now." Spinedi noted that while Italy took action against Bank Sepah in 2007, this was on the basis of technical issues with Bank Sepah's activities and was not a political decision. In this regard, Spinedi argued that so long as Bank Sepah continued to act according to Italian law the GOI would be unable to revoke its license or charter.

...More Work to be Done on Financial Measures

¶10. (C) Also on 11 December Acting A/S McNerney and Treasury DAS Glaser met with Guiseppe Maresca at the Ministry of Finance and discussed Italy's efforts to curtail Iran's financial activities in Italy. McNerney, Glaser, and Maresca discussed Bank Sepah's Rome branch and McNerney asked whether Italy could close the bank down to send a strong signal. Maresca said that the bank was not operational and Italian law did not allow the government to force a shutdown. Maresca noted that Italy had, as an alternative, attempted to convince Bank Sepah to give up its banking license and to maintain only a representative office in Italy, but that Sepah had refused. Maresca confirmed that Bank Sepah Rome continues to meet the minimum capitalization requirements

under Italian law, and said that Italy had already gone beyond existing EU authorities in its actions regarding Bank Sepah. Maresca also noted that Italian banks are required to engage in enhanced due diligence on Iranian correspondent accounts, and that Italy sees an increase in the involvement of third parties and countries in transactions involving Iran. Maresca and his finance ministry colleagues speculated that this may indicate that Iran is shifting its transactions to other countries. There was a general discussion of the impact of sanctions on Iran. Maresca said the Iranian Embassy in Rome consistently tells him that Iran is not affected by sanctions and is able to find other ways to acquire goods, but it was clear that Maresca believed that the embassy was misrepresenting the situation and that the embassy was repeatedly raising the sanctions issue because they were concerned about it. McNerney noted that we have information indicating that sanctions are having an impact on Iran's economy; in particular Iran is having difficulty acquiring sensitive dual-use goods and accessing the international financial system. Finally, Maresca agreed to look into the possibility of Italy taking actions to further restrict Italian banks, correspondent or other relationships with Iranian banks, similar to what France and the UK have indicated they may be able to do within their own domestic legal frameworks.

11. (SBU) Acting A/S McNerney and DAS Glaser cleared this cable. SPOGLI